

**PROPERTY TAX  
INTERIM COMMITTEE  
PUBLIC HEARINGS  
AUGUST 11, 2005  
POCATELLO**

Committee members present were Cochairman Representative Dennis Lake, Cochairman Senator Shawn Keough, Senator Tim Corder, Senator David Langhorst, Senator Elliot Werk, Representative Bill Deal, Representative Gary Collins, Representative Eric Anderson, Representative Wendy Jaquet and Representative George Sayler. Senator Brad Little, Senator Monty Pearce, Senator John Goedde and Representative Mike Moyle were absent and excused. Staff members present for all meetings were Mike Nugent, Jason Hancock and Toni Hobbs.

Others present were Ralph “Moon” Wheeler; Tom Schiller, AARP; Preston Phelps, Caribou County; Dale Hatch, Bannock County; Mayor Roger Chase and David Swindell, City of Pocatello; Dick Rush, IACI; Jim Guthrie and Diane Bilyeu, Bannock County; Steve Brown, Senator Larry Craig’s Office; Muriel Roberts, League of Women Voters; Gene Wiggers; Representative Elaine Smith, District 30; Lorin Nielsen, Bannock County Sheriff; Gene Galloway; Mike and Becky Ponkow, Idaho Examiner.com; Steve Hadley, Bannock County; Frank Nelson, ISL; Ken Estep, Power County; Representative Elmer Martinez, District 29; Senator Stanley Williams, District 28; Robin Wilson; Bruce Dredge, Caribou County; Alex Chizesky; Gene Caldwell, Oneida County Library; Janice Lawes; Genie Alexander, Bannock County; Ernest Jensen, Idaho School Board Association; Mary Tusch; Mark Mendiola, AMI Semiconductor; Carol Stirling; Kendall Keller and John Thompson, Farm Bureau; Roger Sherman, United Vision for Idaho; Brent Lowman; Marvin and Michelle Miles, Idaho Education Association; Gail and Annette Dutton; Pat Wilson; Larry Ghan, Bannock County Commissioner; Margaret Herzog; Carl Smart, School District 25; Ann McDougall; Roy and Karen Thomson; Marie Olson; Allen Andersen; Sam Nettinga, Pocatello Chamber of Commerce; Kent Harmon, Monsanto and Mark Olson.

The meeting in Pocatello was called to order at 1:00 p.m. by Cochairman

Representative Dennis Lake. After opening remarks by the Cochairmen, Jason Hancock, Legislative Services Budget Analyst was introduced to give a short presentation on how property taxes are figured.

**Mr. Hancock** explained that there are two models used for determining property taxes; the budget model and the rate model. The budget model is used by all taxing districts in Idaho while the rate model is only used to determine the percentage of property taxes that go to school maintenance and operations. All other types of School District property tax levies (bond, supplemental, plant facilities, etc.) use the Budget Model.

Property taxes in Idaho fund local government only. \$1.14 billion in property taxes was collected in 2004. In 2002, Idaho ranked 31<sup>st</sup> among states, in terms of percentage of income paid in property taxes, or about 10% less than the national average. **Mr. Hancock** explained that this ranking is somewhat misleading because several states do not have all of the same taxes as Idaho.

After giving some examples, **Mr. Hancock** explained that the budget model is like a balloon. If taxable property value is exempted from the tax base, the property tax bill is shifted to other property taxpayers – the local taxing district is held harmless. Under the Rate Model (School District M&O levy), exempting taxable property from the tax base does not cause a shift to other property taxpayers – the loss of tax revenues is absorbed by the School District.

**Mr. Hancock** explained that there are two main reasons why residential property taxes are increasing rapidly in most taxing jurisdictions.

One is the frozen nature of the 50-50 homeowner's exemption, which causes a home's increase in taxable value to exceed the home's increase in assessed value.

The second is the Public Schools M&O levy rate, which does not decrease when property values rise rapidly, as do other, budget-driven levies.

**Mr. Hancock's** complete presentation will be available as an attachment to these minutes at: [www.legislature.idaho.gov](http://www.legislature.idaho.gov).

After **Mr. Hancock's** presentation, public testimony regarding the issue of property taxes and possible solutions was taken by the committee.

**Representative Lake** said that the purpose of having **Mr. Hancock's** presentation was to try answer the question of how the property valuation equates to the property tax bill. He explained that Idaho's tax system is known as the "three legged stool made up of property tax, income tax and sales tax. He added that Idaho has a constitutional framework within which it has to work.

**Representative Lake** stated that the committee is holding these meetings to listen to citizens regarding property taxes and to listen to suggestions for solutions to the problem. He said that after hearing from citizens in 12 communities throughout Idaho, the committee will meet again this fall to sort through the testimony to decide whether legislation should move forward. The committee will make a report, regardless of whether legislation is prepared, that will go to the entire legislature. He explained that tax bills start in the House Revenue and Taxation Committee of which he is the Vice-Chairman.

**Representative Lake** noted that there is also an initiative process that is being talked about across the state and in his opinion this is a tandem process for those that feel that the legislature is not progressing as it should.

Following are the people who testified

**Mr. Ralph "Moon" Wheeler.**

**Mr. Wheeler** is a former state Senator from American Falls. He said that his solution to this dilemma follows exactly what **Mr. Hancock** said in his presentation. People have used up their homeowner's exemption and its impact is not really providing much relief to property owners. **Mr. Wheeler** added that Power County has experienced a different type of property tax inflation due to the closing of the FMC plant.

He said that as a business owner he remembers when the homeowner's exemption was implemented because it caused business taxes to increase by about 35%.

**Mr. Wheeler** explained that currently the state provides for local government revenue sharing that amounts to 11.5% of the sales tax revenue this year. That money was designed to replace the money that local governments lost when federal revenue sharing ceased. This has remain unchanged since it was passed in 1986. He proposed that the state sales tax be increased by ½ cent and that be combined with the current ½ cent that is being distributed to local governments through the

revenue sharing plan. He suggested that this new ½ cent go directly to the counties for property tax relief to replace the money that would be lost due to increasing the homeowner's exemption to \$100,000 or 50% of the value.

This increase in sales tax could also be used to make up the money lost by freezing that assessed value of owner occupied homes after the occupant reaches the age of 75 years. This could be piggy-backed on the circuit breaker at minimal cost when one considers life expectancy at that advanced age.

**Mr. Wheeler** said that although the property tax issue is different across the state, he believes that everyone feels that sales tax is a far better measure of wealth and ability to pay than property valuation is.

He added that with a visible plan that people understood, the Legislature could take credit for all of the money they give to local governments through the state revenue sharing. He said they deserve credit for this. **Mr. Wheeler** clarified that this does not provide any new money for governments, it simply replaces property tax money with sales tax money.

#### **Mr. David Swindell**

**Mr. Swindell** is the Chief Financial Officer for the City of Pocatello. He explained that property tax is the primary source of revenue for schools, counties and cities. In Pocatello, property tax funds two-thirds of the general fund. It funds 100% of the library, 100% of the match for federal funds in highways, public transit systems and the airport and more than one-half of the funding for the Street Department.

**Mr. Swindell** said that for the city of Pocatello since fiscal year 2002 inflation has gone up 9.8% but the city budget has only gone up 6.1%. Their foregone balance is \$1.3 million.

Pocatello is the only certified law enforcement agency in Idaho with an arrest rate of 46.2%. Fire response time is just over five minutes. Input for input, output for output, the city and local governments throughout the state provide a good level of service with very modest budgets.

**Mr. Swindell** added the local government is essential because it impacts citizens every day. Its about basic fundamentals - like taking out the garbage.

Like state government, local governments are squeezed by unfunded mandates and input costs that rise faster than general inflation.

Unfunded External Requirements	
"911 Airport Security Mandates	\$117,380 yr net cost
EPA Stormwater TMDL permitting	\$ 93,000 yr so far
SNAKE RIVER BASIN ADJUDICATION legal	\$174,204 last year

Municipal Input Costs Rising Rapidly			
	FY03	FY05	%
Medical Insurance	\$536/mo	\$708/mo	Up 32.1%
Diesel #2	\$0.956/gal	\$2.019/gal	Up 111.9%
Fire Hydrant	\$748.32 ea	\$1,000.00 ea	Up 33.6%

These numbers are huge in context of the city's much smaller budget. For example, the additional \$117K airport expense means 24% more in City of Pocatello airport property tax. But it is essential for commercial air service that supports the entire region. Things do not get pushed to lower jurisdictions. The local governments are the lower jurisdictions.

According to **Mr. Swindell** the combination of rising requirements and increasing costs defies simple "belt tightening" as the answer to property tax problems. We are going to do less with less. Perhaps a lot less because many local governments are already stretched to the limit.

Property taxes are further pressured by a relentless decline in non-property tax revenue. Local governments get a portion of the sales tax, highway user money and the liquor tax in pass thru revenues. Compared to 1999, in state pass thru revenues Pocatello is losing the equivalent of nearly three-quarters of a million dollars per year. Barring any more efficiencies they can find, they will either have to make more service cuts or replace lost revenue with property tax. Following are

the three components:

Since 1999, sales tax revenue sharing has grown (\$242,306 \*7.9%) but that doesn't keep up with general inflation, let alone municipal inflation. Purchasing power has declined by \$154,378 (5.0%).

We should also recall that this revenue sharing has never been additional revenue. It is replacement revenue for dollars that cities lost when the business inventory tax was abolished and partial replacement for when the federal government ended revenue sharing.

Highway user distributions are even worse. Since 1999, this city is down \$389,111 in nominal terms and \$632,251 purchasing power (26.5%). The city resorted to using part of its foregone balance, it was used last year to fund streets after the situation became intolerable and other options were exhausted.

Liquor tax distributions are 1/10 the size of sales tax, but through 2004 have been a source of relative strength (up \$110,562 nominal and up \$65,979 (25.1%) in purchasing power). Recently though, even this has reversed. This July, the City of Pocatello received on \$79,205, a reduction of \$17,131 (17.8%) from July 2004. The city will not achieve its budget plan in this area. They have been told the reduction is due to the State's requirement for water matters, with \$7.2 million diverted from cities and counties for this purpose.

**Mr. Swindell** added that property tax exemptions are also a problem for Pocatello. Idaho State University is appreciated but they have always been tax-exempt. The railroad's valuation is based on main line trackage and there is only 2.5 miles of main in the city limits. The fertilizer plants are outside the city and county limits. At the end, the city has a small tax base compared to its 51,466 residents. The resulting levy rates are very high but they do not produce a lot of tax dollars.

According to **Mr. Swindell**, because the city's tax base is already small, additional exemptions shift the burden to the remainder very rapidly. Of late, the corporate income tax investment credit, now available to be taken against property tax, and other exemptions combined to reduce the tax base by \$76.3 million in just three companies. This 5.2% reduction shifted the burden to residents and small

businesses. The city also reduced four positions (1% of its labor force) and imposed service cuts in recreation, cemetery and streets to minimize the impact. Nonetheless, the levy rate still rose, undoing all of their levy rate reductions of the previous five years.

The city has paid off some legacy debt and because of rising values elsewhere, the levy rate will decline next year and they will be back to where they were in 2002. Obviously, corporate exemptions still hinder that effort.

Southeast Idaho is not a resort area nor is it the Treasure Valley. Growth is occurring but it is sometimes painfully slow. This is a working class community that is struggling to overcome bitter pills of industrial downsizing. Pocatello led Idaho out of the recent recession but things remain fragile.

**Mr. Swindell** gave the following two examples as solutions that would threaten the city's recovery.

Increasing the homeowner's exemption by \$50,000 is difficult. The existing exemption is already \$561 million, 26% of our tax base. Doubling it would lose one-third of the last year's taxable value. Levy rates for the remainder would go up by one-third or one-third of the city's budget would have to disappear. Many families in Pocatello live in homes valued under \$100,000. Many are heavy consumers of local government services, but would pay not tax at all, posing an issue of equity and fairness. Finally, a resort home owner facing tax on \$750,000 may not feel that a reduction to only \$700,000 is enough to win his or her vote anyway.

The 1% initiative is even more problematic. The combined levy rate in Pocatello is 2.453%. A 1% cap implies budget reductions of 60%. Such reductions in school districts, counties and cities would eliminate local government as we know it. Ironically, although intended to help lower income citizens, such people would bear the brunt because they typically depend on local government the most. More ironically, there might be little impact in resort areas, including taxes, because combined levy rates in Hailey and Driggs are already below 1% and other areas are close, precisely because of the large valuation increases.

**Mr. Swindell** said that policy must consider impacts across the diversity of the

state, including the large diversity in the property tax situation.

**Pocatello Mayor Roger Chase**

**Mayor Chase** reiterated that corporate exemptions have been very costly to the city of Pocatello because of the shift that goes to residential property owners and small businesses. Since he has been mayor about 10% of the city budget has been removed due to corporate exemptions. If the Legislature passes exemptions, they need to be able to find a way to make up the difference for local governments.

He stated his support for increasing the sales tax by one cent and using that for property tax relief. He also supports relief for senior citizens by freezing their property valuations until the house is sold. He also said that there are ways through programs like reverse mortgages people can set up to help ease the payment of their property taxes.

**Mr. Jim Guthrie - Bannock County Commissioner**

**Mr. Guthrie** said that the Board of Equalization hearings give them a good opportunity to interact with local citizens. During the hearings this year, they heard from a lot of apartment owners, duplex owners and vacation home owners that because they do not receive the homeowner's exemption they cannot afford to pay their property taxes. They also heard from those that have been required by code enforcement, which is done by the county commissioners to clean up their places. These people say that once they clean up their places as required, the value increases and their property taxes go up. People on fixed incomes are also suffering.

In his opinion the 1% initiative would be very bad for Bannock County. Of that \$1.2 billion that is collected in property taxes, counties consistently get about 23%.. Under the 1%, they would get 23/100s of 1%. Such a change would take their tax revenue from \$13.5 million to \$5.7 million. The justice fund of their local government is already at the 2/10 maximum leaving very little for everything else.

**Mr. Guthrie** said the home owners are crying for help. He has heard the following solutions from citizens.

- , Raise the 50/50 homeowner's exemption and include the land.
- , Index the homeowner's exemption for inflation.



**Mr. Guthrie** said that respecting what the city said, these solutions would have to be done in a transitional manner so local governments have time to acclimate.

Cap the amount that home values can raise in a given year. This needs to be sensitive to when property was last assessed because all properties are not assessed annually. If someone's home was recently assessed at market value and another was not, a cap would hurt the home that was more recently assessed at market value. All values would need to be brought up to date before a cap could be instituted.

Assessors need to be given the tools that allow them to be effective.

Include the counties when creating urban renewal areas. This is a valuable tool for economic development but the counties would like to have more participation in the process. Currently decisions are made that capture tax revenue for up to 24 years without any say by the county.

**Ms. Diane Bilyeu- Bannock County Assessor**

**Ms. Bilyeu** said that her office hears many times each day about property values and taxes. Homeowner's are upset and they dislike the property tax.

Tax experts say the Idaho is lucky because we have the balance of our taxation system. Three areas of taxation, sales tax, income tax and property tax (the three legged stool). In her opinion this is true except that one leg of our stool, the property tax leg, is broken and tilting.

**Ms. Bilyeu** said that when the 50/50 homeowner's exemption was put in place in 1983, the upper value for the exemption was \$100,000 and at that time there were few homes that exceeded that \$100,000 value. Today that is the value of an average home in most of the state. Forty percent of all residential property in Idaho is over \$100,000 in value and so the effect of the homeowner's exemptions has eroded or diminished.

In 1990, 47.19% of all property tax paid in the state was paid by residential owners. In 2004, 61.6% of all property tax was paid by residential owners showing the significant shift or tilting of our three legged stool.

Until recently, **Ms. Bilyeu** said she was convinced that the shift was caused by new exemptions. However **Mr. Alan Dornfest of the Idaho State Tax Commission**

indicated the shift has been caused 1/3 by exemptions, 1/3 from rapid inflation (the inflation rate on homes vs businesses is 2 to 1) and 1/3 from new construction.

**Ms. Bilyeu's** solutions would be to add the homeowner's exemption to the residential land and also to raise the cap on the amount the residence can claim to \$200,000. She also recommended that the State pay for that increase in the same way the circuit breaker and the agricultural personal property is paid for. This is with a reimbursement to the local level. To pay for that at the state level, **Ms. Bilyeu** suggested putting the one cent back on the sales tax, excluding food.

In her opinion the 1% initiative is breathing down our necks and we all know what it did to the California tax structure. She suggested that there are other alternatives to the problem that are not as drastic as this initiative.

#### **Ms. Muriel Roberts - League of Women Voters**

**Ms. Roberts** stated that the members of the League of Women Voters first began studying Idaho's tax structure in 1975. Since then there have been several more studies of various aspects of taxation in Idaho.

The League's current position, in brief, is that Idaho should maintain a balanced tax structure which includes a variety of broad-based taxes such as the property tax, sales tax and income tax. They also believe that Idaho's tax structure should be broad-based, equitable, financially adequate for citizens' needs, and a system which can be administered with thoroughness and fairness.

**Ms. Roberts** said that the League believes that progressivity in the state income tax structure should be maintained and improved. Since income tax rates were reduced in 2001, property taxes have been increasing sharply. According to **Ms. Roberts** the State should restore the income tax rates that were in place in 2000. Perhaps it is time to enact a new, higher tax bracket in the state income structure.

Increased costs for state funded Medicaid and corrections have strained the state's ability to fund public education, leaving property tax payers to pick up increased costs for education. It then becomes more and more difficult for school districts to get taxpayer approval for the level of taxation needed to support education.

The League believes:

the homeowner's exemptions should be increased to keep up with inflation.

the state should extend the sales tax to services and lower the rate, to make the sales tax more progressive and give sales tax relief to lower income families.

local option sales or income taxes should be available to local governments after a vote of the citizens of the community.

in the year when the use of a parcel of agricultural land is changed, an amount of money at least three times the difference between the property tax on the land when appraised as agricultural and the tax for the new use should be collected and distributed to the governmental units which tax that land, in order to offset some of the public costs of development.

In **Ms. Robert's** opinion it appears that, in the wake of recent tax reductions, Idaho has a structural deficit — a tax structure that is inadequate for raising the revenues necessary to fund the state's ongoing commitments. It will require creative thinking and an open-minded Revenue and Taxation Committee to deal with the situation Idaho is facing. The League encourages the legislature to enact reforms that would help bring equity and adequacy to Idaho's tax structure, and allow property taxes to be more reasonable in areas of rapid growth.

#### **Mr. Gene Wiggers**

**Mr. Wiggers** said he is concerned about senior citizens on fixed incomes. When an area is newly developed it causes an increase in property taxes it impacts these senior citizens. Generally senior citizens have lived in their homes for many years and are acclimated to the home itself and the immediate environment and do not react well to changes in that environment. They want to remain where they are regardless of whether or not they could move into a nice condominium or other place. As a result of property taxes increasing sometimes that is not possible.

**Mr. Wiggers** would support increasing the sales tax, excluding food because food is essential for everyone. He also supports freezing the property value for senior citizens at the value it was before a development occurred that caused it to increase. It should be frozen at that value as long as the senior citizen lives in the home.

**Representative Jaquet** asked if raising the circuit breaker income level to \$25,000 or \$28,000 would be helpful to people. **Mr. Wiggers** said that would be a great help to people who are living in houses valued at \$100,000 on \$25,000 incomes. Older people on fixed incomes really need some help. Besides property values, medication and health care costs are increasing rapidly. He said he knows many people who have been forced to leave their homes because they cannot afford to stay there.

**Mr. Lorin Nielsen - Bannock County Sheriff**

**Mr. Nielsen** said that he is also the commissioner of the Aremo Cemetery District that takes care of three rural cemeteries. He stated that proposals of the 1% initiative and possible cuts are very frightening. In his opinion, local government is where the rubber meets the road. Local governments are the first respondents to any emergency that happens in a community.

**Mr. Nielsen** said he is proud of the way the City of Pocatello and Bannock County get along and work together. He said that Bannock County has met with people from the U.S. Budget and Taxation Committee due to recognition they have received for homeland security. The federal government was very impressed that the arrest rate and conviction rate in Bannock County is about 50% compared to the national average of about 30%. This success is due to the fact the city and county works together. Cutting property taxes without finding a way to make up for the lost revenue will affect this success.

He suggested that the state look for ways to save revenue by trying to use computer programs that are compatible with counties and cities so they can share information. He also suggested that the state look at what resources are available, such as drug and alcohol education facilities, before sending prisoners out of state. Instead of one agency trying to take care of everything, the ability exists to work together to provide better service for less money.

**Mr. Nielsen** said that if cuts are made at the local level and exemptions are given, the state needs to find way to make up these funds for local governments. He added that agrees with **Mr. Wheeler's** suggestion regarding the sales tax and the revenue sharing solution.

**Mr. Steve Hadley - Bannock County Commissioner**

**Mr. Hadley** said that during the Board of Equalization it was made apparent that

people are mad about property tax increases. With 1% hanging on the horizon, solutions need to be found quickly. In his opinion the 1% initiative would only make matters worse. **Mr. Hadley** supports adding the one cent back on the sales tax to use to provide property tax relief to citizens.

**Mr. Ken Estep - Power County Commissioner**

He stated that when FMC left Power County, they lost \$100 million of property valuation. This caused a shift in the tax burden to residential property owners. He supports increasing the sales tax as a way to offer property tax relief.

He reminded the committee that while the state has nine or ten counties that are growing rapidly, others are not and that exemptions are more painful for those non-growth counties.

In response to a question from **Senator Werk**, **Mr. Estep** said that the population of Power County is 7,339, the tax base is about \$478 million and the county levy rate is .042.

**Representative Jaquet** asked whether a local option tax would be of any benefit to Power County. **Mr. Estep** said that while local option taxes are not a bad idea, it probably would not work for Power County due to the fact that most people already go to Pocatello in Bannock County to shop already.

**Ms. Carol Sterling**

**Ms. Sterling** endorsed the idea of having the circuit breaker for all low income Idahoans. She said that families that make less than \$22,000 per year need some relief. Many people in poverty work full time and have children. The number of children in poverty is increasing rapidly. These children are those who end up in over crowded and underfunded schools because they have no other choices.

**Mr. Roger Sherman - United Vision for Idaho**

**Mr. Sherman** agreed that the property tax leg of the three legged stool is out of balance. The property tax burden has shifted to residential home owners and they are being required to pay a larger and larger share. In addition property taxes now make up the largest share of the local taxes as state taxes have been cut and a greater share education funding has been pushed down to the local level. **Mr. Sherman** stated that in the absence of significant solutions, the state is going to be faced with options such as the 1% initiative.

He made the following suggestions to address the unfairness of property tax toward residential property owners:

- , Increase the homeowner's exemption to \$125,000 and include the land. The homeowner's exemption should also be indexed to account somewhat for increases in value.
- , The circuit breaker should be available to all low income homeowners, not just seniors. The maximum credit allowed and the income level need to be adjusted.
- , Consider allowing a renter's credit to make up for the fact that many renters are paying the landlord's property taxes on the home they rent.

**Mr. Sherman** offered two more suggestions about what might be done about the general problem of property taxes.

- , Local option taxes should be allowed to allow communities to decide if they want to pay extra for certain services.
- , The state of Idaho should look at picking up a larger share of school funding including funding buildings.

**Mr. Sherman** reiterated that the state needs to find a solution to this problem before we are faced with something like the 1% initiative.

#### **Mr. Brent Lowman**

**Mr. Lowman** spoke that his property value has increased three times in the last three years. Ironically the justification for the last increase was because the land had increased in value, not the structure. He agreed that something needs to be done before a 1% initiative is implemented.

#### **Mr. Marvin Miles - Idaho Education Association**

**Mr. Miles** said that he agreed with the solutions of the League of Women Voters presented earlier to the problem.

#### **Mr. Gail Dutton**

**Mr. Dutton** explained that his and most people's property taxes are leveraged because when a person gets a loan for a home, it is based on their income and ability to pay back that loan. Property taxes are assessed on the full value of the home as if a person has the money available to pay them. Property taxes have

nothing to do with a person's ability to pay them. As property taxes increase, the amount they increase by is leveraged several times. A person could probably endure a property tax that increases by the average annual inflation rate of 3%. But with a 20% down on your property and a loan on that property, that 3% turns into 15% over the life of the loan.

**Mr. Dutton** said he likes the idea of forming a taxing district with Power County and instituting some sort of local option tax to provide some property tax relief for the area.

In response to a question from **Senator Werk**, **Mr. Dutton** said that he does itemize his deductions on his state income tax but the he pays \$10,000 in property tax for rentals that he owns.

**Ms. Margaret Herzog**

**Ms. Herzog** said that in her opinion cooperation between all levels of government is very important.

**Mr. Trent Clark - Monsanto Company**

**Mr. Clark** introduced his colleague **Mr. Kent Harmon** who is the property tax specialist for Monsanto. He explained that Monsanto Company is a mining and manufacturing business that operates in and around the community of Soda Springs, Idaho.

**Mr. Clark** said that as the legislature tries to solve these problems, "the devil is in the details." Some answers to the problem of how to assess and levy tax on rapidly appreciating recreational property developments and investments that have sold for extraordinarily high prices, but do not yet have homes built on them may have unintended consequences for the Monsanto Company.

**Mr. Clark** said that Monsanto owns parcels of beautiful highland close to blue ribbon trout fisheries, some of it even bordering National Forest land. This land is currently assessed in the categories of dryland grazing or non-irrigated agricultural land. Some of this property was purchased at a much higher price than would be justified by the cattle or commodities raised on it. In the majority of cases this land was purchased to prevent development. Several thousand acres were purchased around the Monsanto Plant in Soda Springs under a consent order with the U.S. Environmental Protection Agency. This consent order was entered into under the

federal Comprehensive Environmental Response, Compensation and Liability (CERCLA) Act, also known as Superfund.

Although the original assumption was proved erroneous, it was discovered that wind-blown dust that had settled on the soil had the same elements that are found in the phosphate ore Monsanto produces. Their Superfund investigation showed in every case that this “dust” did not harm the farm fields or grazing cattle. However a hypothetical future use scenario found that if a child were to eat six ounces of dirt each day for 70 years, certain adverse health effects might occur. Monsanto was required to take action to prevent the development of housing, day cares, playgrounds or other land uses where children might eat the dirt.

**Mr. Trent** said that Monsanto is asking that any solution the legislature considers not sweep up situations such as what he explained above just by accident. Some ways to avoid this, according to Monsanto, in descending order of preference are:

- , Limit changes in valuation to acreage that have been “plotted” for development.
- , Exclude acreage covered by deed restrictions or conservation easements that prevent development.
- , Excluded “above-agricultural market” real estate purchases that are done pursuant to agency mandates or administrative orders.

**Representative Jaquet** asked if they would consider a look back provision that would make the company responsible to pay taxes on the property if it were ever sold as recreational property. **Mr. Clark** said yes but the consent order exists in perpetuity. This would require them to go to the EPA for a change in the consent order. They have had to find entities that would hold the conservation easements or deed restrictions in perpetuity.

In response to another question from **Representative Jaquet**, **Mr. Dan John** from the State Tax Commission explained that the true market value of this property is probably very low due to the fact that it cannot be developed.

**Mr. Clark** explained that **Senator Stennett’s** legislation that passed last year that dealt with the definition of environmental conservation easements was very commendable. Unfortunately that definition was very detailed and did not cover the easements of Monsanto. The conservation easements in **Senator Stennett’s**



bill provided for protection from development of roads. The EPA would not have a problem allowing a road to be developed on the Monsanto property.

**Representative Langhorst** asked if they are actually using the agricultural exemption to avoid paying higher taxes on the property. **Mr. Clark** clarified that some of this land is in nonresidential use but it is used for industrial purposes so they are not able to use the agricultural exemption. He added that the only reason they own any of the land is to prevent development due to the EPA requirement. He added that the land is part of the economy so they do lease it to local farmers who use it to farm or for grazing. It is his understanding that land does qualify for the agricultural exemption. **Representative Langhorst** said that since Monsanto is not using the development agricultural exemption, changing that would not affect them adversely. **Mr. Clark** explained that one corner of their property had a bar on it and they used the development agricultural exemption for that. That is now used for grazing.

**Senator Werk** asked if when a city creates an urban renewal district that takes tax money away from a county. **County Commissioner Guthrie** replied that it is mostly just a philosophical difference and if the counties were at the same table when the decision was made, it would make more sense.

In response to a question from **Representative Jaquet, Caribou County Assessor Mr. Preston Phelps** said that the value of Monsanto's personal property is about 30% of the entire valuation of the entire county. **Commissioner Ken Estep** noted that about 47% of Caribou County's tax base is from personal property and the Power County's is 44%.

**Mayor Roger Chase** commented that the county, school districts and the city work hard to keep their levies low and growth does help with that. He emphasized that local option taxes are a good alternative but they would not be realistic because of the 2/3 majority required to pass. This should be adjusted.

He also suggested looking at the financing sources that are given to cities such as franchise fees for power, gas and cable and consider extending that to counties. In his opinion giving them that option might be helpful.

**Mayor Chase** said that counties do have the ability to create urban renewal districts.

**Senator Corder** asked what the value of exemptions in the city of Pocatello is currently and which exemptions could be eliminated. **Mr. Swindell, City Manager** said that the homeowner's exemption is about \$561 million but there is no way to know what the total of the business exemptions are. **Ms. Bilyeu, County Assessor** agreed that there was not way to get an exact figure.

**Mayor Chase** said that the exemptions for real property given to large corporations such as AMI, Kraft and even Micron were supposed to create jobs in communities. He suggested looking at whether these exemptions did that and adjusting them accordingly. He agreed that these exemptions should have the same requirements as the legislation from last year. **Mayor Chase** said he did not have information regarding the amount of exemptions given to nonprofits.

**Representative Jaquet** said that regarding the liquor tax distribution, she was led to believe that they would get the same amount and not revenue share on the increased amount. She asked why Pocatello received less. After some discussion, **Senator Corder** explained that funds are going to be advanced from next year's payment that will give cities a 16% or 17% increase over last year. On top of that there is still a projected 26% increase for next year.

**Senator Werk** suggested that because Power and Bannock County seem to have opposite problems, they should merge to form one county. It seems that issues in each county could compliment issues in the other.

#### **Mr. Larry Ghan - Bannock County Commissioner**

**Mr. Ghan** said that he has been concerned for some time over the shift in the property tax burden to residential homeowners. He offered the following as solutions.

- , Look at expanding revenue. He agreed with Senator Bunderson's proposal that the state needs to find a way to capture the lost revenue due to internet sales.
- , Look at the idea of local flexibility and that it not be only property tax based in its orientation.
- , He said he would reluctantly support an increase in the sales tax only if it does not include food.
- , Moving some of the costs of county government that are antiquated and outdated to other more appropriate areas. This would include health care

and indigent care.

The state could provide tax incentives or deductions to encourage economic development in cities and counties. Why not look at the possibility of developing a payroll tax deduction for those businesses that further invest or expand in a community.

**Mr. Ghan** said everyone is on the same team working to solve the problem on different levels. He cautioned the legislators to make sure areas are kept informed of what is going on regarding solutions to this problem and to be careful of any unintended consequences.

In response to a question from **Senator Corder**, **Mr. Gail Dutton** explained that with reverse mortgages, the taxes are paid when the estate is settled.

The meeting was adjourned at 3:00 p.m.